



**FILED**

01/11/19  
04:59 PM

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric  
Company (U 39-E) for Approval of Demand  
Response Programs, Pilots and Budgets for  
Program Years 2018-2022.

Application 17-01-012  
(Filed January 17, 2017)

And Related Matters.

Application 17-01-018  
Application 17-01-019

**PACIFIC GAS AND ELECTRIC COMPANY'S RESPONSE TO ALJ'S RULING  
DIRECTING RESPONSES TO PROPOSE IMPROVEMENTS TO THE DEMAND  
RESPONSE AUCTION MECHANISM**

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Dated: January 11, 2019

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Pursuant to Administrative Law Judge (ALJ) Hymes' January 4, 2019 Ruling issuing the Evaluation Report of the Demand Response Auction Mechanism Pilot, Noticing January 16, 2019 Workshop, and Denying Motion to Require Audit Reports in the Evaluation Report (Ruling), and the ALJ's January 11, 2019 instructions to refrain from commenting on the Energy Division Final Evaluation Report, Pacific Gas and Electric Company (PG&E) respectfully submits the its response with additional recommendations.

PG&E notes that the recommendations provided in Attachment A, as summarized below, are limited to those that either differ from or are additional to ED Staff's recommendations and are not an exhaustive list of the full set of changes required.

PG&E cautions that fundamental modifications are required for the continuation of DRAM. The DRAM should be shown to be cost effective, using established load impact analysis standards, and procurement should be based on an assessment of forecasted Resource Adequacy (RA) need as determined by existing CPUC- and CAISO-related processes, and not tied solely to the development of a market for third party DR providers. In addition, PG&E seeks to ensure capacity provided in the DRAM contract is distinct and incremental to other solicitations, programs, tariffs, other DRAM resources and contracts, etc. to explicitly preclude shifting of

customers between resources across different DRAM contracts held by the same Seller. PG&E provides additional detail in Attachment A.

The January 4, 2019 ALJ Ruling stated that

While we do not include the two utility audits as part of the Pilot Evaluation performed by staff, the results of the two audits will be considered during this proceeding. Parties will have an opportunity to comment on the two audits and results during discussions at the January and February workshops and in responses and comments to a ruling to be issued following the workshops.

If the ALJ wants parties to have the opportunity to comment on the two audits during the workshop discussions, the ALJ will need to decide whether to make the SCE and PG&E audit reports available to the parties. Presumably, the ALJ could do this in a ruling responding to the SCE and PG&E motions for authority to file their audits under seal. After PG&E reviewed the responses from OhmConnect, Olivine, the Joint DR Parties, and CLECA to the SCE and PG&E motions for inclusion of their audit reports in the ED Evaluation Report, PG&E asked the three DRAM Sellers covered in its audit report if they objected to public release of their portion of the report. Two Sellers have not responded to PG&E's question. The third Seller responded and has requested that its part of the audit report remain confidential. Therefore, consistent with its obligations under the confidentiality provisions of the DRAM pilot contract, PG&E stands by its motion to file under seal, and is not advocating for public release of the audit report. However, PG&E notes that without a ruling resolving the motions to file under seal, the parties will be unable to comment on the audit results during the upcoming workshops.

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PG&E looks forward to discussing the topics in the ED Evaluation Report and in the recommendations filed January 11, 2019 by the parties, at the workshops.

Respectfully submitted,

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Attorneys for  
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Dated: January 11, 2019

## **Attachment A**

### **A. Solicitation Process and Bid Evaluation Improvements**

#### Procurement levels and budget:

- Overall DRAM procurement and associated budget should be based on forecasted Resource Adequacy (RA) need as determined by respective CPUC- and CAISO-related processes
- Ensure flexibility to adjust DRAM procurement based on key policy changes as they are determined, including, but not limited to, centralized procurement and the development of a multi-year RA procurement framework under discussion in proceeding R.17-09-020

#### Evaluation of Bids:

- Use least-cost, best-fit methodology for DRAM procurement with qualitative criteria for prior performance and project viability, as well as the flexibility to evaluate based on changing needs of the system
- Modify ED Staff's proposal for bidders to voluntarily provide expected dispatch information, making it a requirement and a qualitative criterion in the evaluation of bids
- Elimination of ED Staff's proposal to include qualitative criteria favoring new bidders
- Elimination of the residential set-aside, including ED Staff's recommendation to limit this to new residential DRPs
- Pay-as-bid, rather than a market clearing price auction, to maximize ratepayer value

#### Other:

- Elimination of ED Staff's proposal to publish administrative expenses to avoid revealing information about the awarded bid capacity prices, which could lead to gaming
- Elimination of ED Staff's proposal to incorporate bid fees into the offer submission process given the administrative burden of managing such processes and lack of use in other solicitations today
- Additional information should be provided within the offer form, including reliance on interconnection agreements, status of interconnection processes, experience with IOU and CAISO systems, percent of MW already enrolled, other IOU programs the bidder is participating in, etc.

## **B. Performance and Accountability Improvements**

### Qualifying capacity in supply plans:

- Qualifying capacity in supply plans should be based on existing CPUC-approved standards for demand response, including (a) complying with the formal load impact evaluation process, which require the ex-ante impacts be informed by the past performance to the extent reasonable, and (b) the ability to operate for at least four consecutive hours, though some options presented, such as capacity testing and the use of performance from a past event, may also be appropriate in certain circumstances
- Requirement to use CPUC-approved baselines for retail settlement with IOUs
- Prohibit submission of waivers to the CAISO based on changes to CAISO's market rules and obligations (e.g. RA availability assessment hours)

### Dispatch and testing requirements:

- Modification of ED Staff's proposal for a 30-hour minimum dispatch requirement between May and October of each year, as this requirement would not be enforceable until January a year after the contract began delivering – alternatively, monthly dispatch/testing requirements would be more reasonable and better align with similar IOU DR programs
- Require retesting of the full contract quantity when the demonstrated capacity falls below 90 percent
- Entire portfolio tested on the same day, including across multiple contracts

### Measurement of demonstrated capacity:

- Demonstrated capacity above the contract quantity should not be encouraged or awarded, contrary to ED Staff's proposal, due to no RA value for such overperformance
- Resources should be tied to the supply plan values and those that underperformed should not be offset by resources that overperformed

## **C. Pro Forma Contract Revisions**

### Supply Plan:

- 60-calendar day supply plan deadline should be firm with no changes permitted after deadline
- Validation of net qualifying capacity (NQC) value based on assessment of qualifying capacity (see above)
- Allow audit of the supply plan submitted by the DRP
- Eliminate the ability for sellers to reduce contracted capacity (Section 1.5 of contract)
- Allow buyers to assess penalties for non-performance on shortfalls (e.g. underperformance from contracted capacity) in supply plan submissions
- Increase the tolerance band proposed by ED Staff to a minimum requirement of 90 percent of the supply plan amount as a percentage of the contract capacity, or else the

contract is considered to be underperforming, such that two consecutive months of underperformance results in default

Demonstrated Capacity:

- Demonstrated capacity of a resource should not be paid in excess of the supply plan quantity (it should be capped by supply plan value, not by the NQC at a resource level)
- Hierarchy of dispatch, test, and must-offer obligation (MOO) for the demonstrated capacity submission should be enforced with greater buyer visibility
- Require greater than 90 percent of the contract capacity to be provided in the demonstrated capacity, or else the contract is considered to be underperforming, such that two consecutive months of underperformance results in default
- Eliminate language at the end of Section 3.5 of the contract, which states that the Seller is not required to indemnify Buyer for Capacity Procurement Mechanism costs allocated to Buyer by the CAISO as a result of Seller capacity shortfalls
- Audit procedures should more specifically specify that payment of invoice under audit should be held until completion, and keep existing time periods for conducting audits, contrary to ED Staff's recommendation to limit this time period
- Ensure capacity provided in the DRAM contract is distinct and incremental to other solicitations, programs, tariffs, other DRAM resources and contracts, etc. to explicitly preclude shifting of customers between resources across different DRAM contracts held by the same Seller, to ensure that individual customers' load curtailments are counted only once towards a showing of Demonstrated Capacity, and distinct from capacity provided through other solicitations, programs, tariffs, other DRAM resources, etc.
- Specify that testing provision requires the DRAM Seller's entire contract to be tested on the same day, including across multiple contracts held by Seller

**D. Other Improvements**

- Eliminate imposition of penalties on IOUs for failing to provide RQMD within T+48B timeline, as this could introduce perverse incentives for DRPs to stop initiating communication early on when issues can be resolved more quickly in order to gain the penalty fee later
- Update prohibited resources language to most recently approved language and requirements, and allow IOUs to reduce invoice amounts by the amount of the DRAM Sellers' portfolio contribution to the cost of the verification process
- Create greater visibility and reporting, similar to IOU monthly reporting of DR events
- Clarify that the utility is not endorsing the DRAM Seller's program offering, including any use of the utility's name or logo in customer communications, except for the existence of a DRAM contract and to initiate the CISR-DRP or click-through process